

## Press Release

### Vaswani Industries Limited

May 26, 2021



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 71.95 Cr*
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A3+ (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 71.95 Cr bank facilities of Vaswani Industries Limited (VIL). The outlook is '**Stable**'.

#### Rationale for rating assigned

The ratings assigned reflect extensive experience of promoters spanning over two decades in iron and steel industry, long track record of operations and above-average financial risk profile of the company marked by low levels of gearing of 0.59 times and total outside liabilities to total net worth (TOL/TNW) of 1.09 times as on 31<sup>st</sup> March 2020, moderate net worth at Rs. 90.14 Cr as on 31<sup>st</sup> March 2020 and moderate debt-coverage indicators with Interest Coverage Ratio (ICR) of 1.54 times and Debt-Service-Coverage-Ratio (DSCR) of 1.23 times for FY2020. On the contrary, ratings are constrained on account of fluctuating profitability margins, working capital intensive nature of operations and intense competition in the industry.

#### About the company

Incorporated in the year 2003, VIL commenced its operations in February, 2004 by Mr. Ravi Vaswani and Mr. Yashwant Vaswani. The operations are currently led by Mr. Yashwant Vaswani. VIL is engaged in manufacturing of sponge iron and steel billets having an annual production capacity of 90,000 MT and 66,000 MT, respectively. Further, it operates an 11.5 MW thermal power plant for captive consumption since 2009. VIL is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

#### Analytical Approach

Acuite has considered the standalone view of business and financial risk profiles of the VIL to arrive at this rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management and established track record of operations**

VIL was incorporated in the year 2003 and the operations are currently led by Mr. Yashwant Vaswani, who possess about two decades of experience in the aforementioned industry. The company is engaged in the manufacturing of sponge iron and steel billets with healthy scale of operations as reflected from its revenue of Rs. 353.27 Cr in FY20. Furthermore, the company has recorded an operating income of Rs. 210.23 Cr during 9MFY2021, despite subdued performance during Q1FY2021 due to covid-19 pandemic. The top management is ably supported by well experienced technical team.

Owing to its established track record of operations and management experience, the company has been able to establish healthy relationships with its customers and suppliers.

Acuite believes that VIL's operational track record and extensive experience of the management will

continue to help in building healthy relationships with its customers and suppliers.

- **Above-average financial risk profile**

The financial risk profile of the company is above average marked by moderate net worth, low gearing levels and above average debt protection metrics and coverage indicators.

The net worth of the company is moderate at Rs. 90.14 crore as on March 31, 2020. The company has followed a conservative financial policy in the past and the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.55 times and 1.14 times as on March 31, 2019, over the past three years. The leverage levels have deteriorated marginally due to loss made during the year though continues to remain low at 0.59 times as on March 31, 2020. The total debt of Rs. 52.97 crore as on 31 March 2020 comprised of long-term borrowings of Rs. 11.19 Cr and working capital borrowings of Rs. 41.77 Cr.

Moderate profitability has led to above-average debt coverage indicators of the company marked by debt-service-coverage-ratio and interest coverage ratio of 1.23 times and 1.54 times, respectively as on 31<sup>st</sup> March, 2020.

Acuite believes that the financial risk profile of the company will continue to remain above-average on account of moderate net worth and above-average debt protection metrics over the medium term.

## **Weaknesses**

- **Intense competition and inherent cyclicality in the steel industry**

Steel is a highly competitive industry due to low entry barriers that results in intense competition from the large number of organized and unorganized players present in the market. The company's performance remains vulnerable to cyclicality in the steel sector as demand for steel depends on performance of end user segments such as construction and real estate. Also, the operating margin of the company is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods. However, the risk is mitigated to an extent on account of established track record of operations.

- **Working capital intensive nature of operation**

The working capital nature of operation of the company are intensive as evident from gross current asset (GCA) days of 119 days in FY2020 as compared to 138 days in the previous year. The inventory holding period of the company has decreased to 40 days in FY2020 as compared to 62 days in the previous year. This decrease in inventory days is mainly due to lower levels of raw material maintained by the company during the year end. The debtor days of the company stood at 58 days in FY2020 as compared to 53 days in the previous year. The company's intensive working capital requirement leads to higher reliance on working capital borrowings with an average utilization of 93 per cent for the last six months ended March 2021. The current ratio stood at 1.38 times as on 31<sup>st</sup> March 2020.

Acuite expects the operations of the company to remain working capital intensive on account of the debtors' collection period and inventory levels to be maintained by VIL.

## **Rating Sensitivity**

- Deterioration in profitability margins
- Significant decline in scale of operations
- Substantial improvement in working capital operations

## **Material Covenants**

None

## **Liquidity position: Adequate**

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 2.85 crore for FY2020 as against Rs. 2.33 crore of repayment obligations for the same period. The company has unencumbered cash and bank balances of

only Rs. 0.91 crore as on 31<sup>st</sup> March 2020. VIL's working capital operations are intensive marked by gross current asset (GCA) of 119 days leading to higher utilization of working capital limits with an average utilization of ~93.17 per cent in the last six months ending March 2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals as against maturing debt obligations over the same period.

#### Outlook: Stable

Acuite believes that VIL will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and above-average financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or further elongation in working capital cycle.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	353.27	319.07
PAT	Rs. Cr.	(2.52)	1.16
PAT Margin	(%)	(0.71)	0.36
Total Debt/Tangible Net Worth	Times	0.59	0.55
PBDIT/Interest	Times	1.54	1.89

#### Status of non-cooperation with previous CRA (if applicable)

None

#### Any other information

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History (Up to last three years)

Not Applicable

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB/ Stable (Assigned)
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	4.95	ACUITE BBB/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Assigned)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A3+ (Assigned)

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### About Acuité Ratings & Research:

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